

**Agenda Of The SPECIAL Meeting – Oversight Board for the Successor Agency to the
Redevelopment Agency of the City of National City
Council Chambers
Civic Center
1243 National City Boulevard
National City, California
Wednesday – December 19, 2012 – 3:00 P.M.**

Open To The Public

Please complete a request to speak form prior to the commencement of the meeting and submit it to the Oversight Board Secretary.

It is the intention of your National City Oversight Board to be receptive to your concerns in this community. Your participation in local government will assure a responsible and efficient City of National City. We invite you to bring to the attention of the Board Chairman any matter that you desire the National City Oversight Board to consider. We thank you for your presence and wish you to know that we appreciate your involvement.

ROLL CALL

Pledge of Allegiance to the Flag by Chairman Ron Morrison

Public Oral Communications (Three-Minute Time Limit)

NOTE: Pursuant to state law, items requiring National City Oversight Board action must be brought back on a subsequent National City Oversight Board Agenda unless they are of a demonstrated emergency or urgent nature.

Upon request, this agenda can be made available in appropriate alternative formats to persons with a disability in compliance with the Americans with Disabilities Act. Please contact the City Clerk's Office at (619) 336-4228 to request a disability-related modification or accommodation. Notification 24-hours prior to the meeting will enable the City to make reasonable arrangements to ensure accessibility to this meeting.

**It Is Requested That All Cell Phones
And Pagers Be Turned Off During The Meetings**

NEW BUSINESS

1. Review of State Department of Finance (DOF) final determination letter regarding due diligence review (DDR) or low and moderate income housing fund (LMIHF). Consideration of options available to the Successor Agency for responding to demands of DOF.

Adjourn to the next regular adjourned meeting of the Oversight Board to the Successor Agency to the Community Development Commission as the National City Redevelopment Agency scheduled on January 16, 2013 at 3:00 p.m. in Council Chambers, Civic Center.

**OVERSIGHT BOARD TO THE SUCCESSOR AGENCY TO
THE COMMUNITY DEVELOPMENT COMMISSION
AS THE NATIONAL CITY REDEVELOPMENT AGENCY
AGENDA STATEMENT**

MEETING DATE: December 19, 2012

AGENDA ITEM NO. 1

ITEM TITLE:

Review of State Department of Finance (DOF) final determination letter regarding due diligence review (DDR) or low and moderate income housing fund (LMIHF). Consideration of options available to the Successor Agency for responding to demands of DOF.

PREPARED BY: Brad Raulston, Executive Director

DEPARTMENT: Successor Agency

PHONE: Ext. 4256

APPROVED BY: 

EXPLANATION:

See attached.

FINANCIAL STATEMENT:

ACCOUNT NO.

N/A

APPROVED: _____ Finance

APPROVED: _____ MIS

ENVIRONMENTAL REVIEW:

N/A

ORDINANCE: INTRODUCTION: ☐ **FINAL ADOPTION:** ☐

STAFF RECOMMENDATION:

BOARD / COMMISSION RECOMMENDATION:

N/A

ATTACHMENTS:

1. Letter from Steve Szalay dated December 14, 2012 regrading LMIHF DDF
2. Letter form Steve Szalay dated December 18, 2012 regarding ROPS 3 determination
3. Staff Report for Successor Agency dated December 18 requesting a loan from the City
4. Staff Report for City of National City dated December 18 considering the loan request

Explanation for Oversight Board agenda item 1:

The DOF is demanding the Successor Agency pay \$6,155,638 from the Low and Moderate Income Housing Fund (LMIHF) balance. The Successor Agency cannot meet this demand set forth in the final determination of the State DOF detailed in the letter from Steve Szalay of the DOF dated December 14, 2012. The DOF contends there is a \$6.1 million residual fund balance in LMIHF and is demanding payment within five working days. Excluding bond proceeds, the estimated total cash on hand in all combined funds of the Successor Agency is \$2.5 million. Those funds are needed to meet future obligations of the Successor Agency. Additionally, the legally executed WI-TOD DDA requires the Successor Agency to provide \$21 million for the 1st phase and \$15 million for the 2nd phase of the affordable housing project.

The demand payment of \$6.1 million is due by this Friday, December 21st. If the payment is not made the DOF letter threatens severe consequences. The letter states: "a failure to recover and remit those funds may result in offsets to the other taxing entity's sales and use tax allocation or to its property tax allocation." In addition, a failure to transmit the payment will prevent the Successor Agency from receiving a "finding of completion" from DOF. Without a finding of completion, the Successor Agency will be unable to take advantage of the provisions detailed in HSC section 34191.4.

The letter also states the "Agency should seek counsel from their oversight board to determine the solution most appropriate for their situation."

At the meeting last night, the Successor Agency requested a loan from the City of National City to pay the demand detailed in the letter from Steve Szalay of the DOF dated December 14, 2012. The only eligible fund from the City to make the requested loan is general fund contingency reserves. The loan requested from the SA of approximately \$4 million would take more than half existing reserves and would bring the City's reserve level down to approximately 10%, or one month, of operating expenses. This would make the City financially vulnerable to major economic shift and a significant decrease in its credit rating. The City of National City denied the request due to concerns about general fund contingency reserve levels not allowing such a payment and the insecurity of the future property tax funds designated to repay the requested loan. The SA has already requested a loan from the County on a prior occasion which was denied. The SA intends to make another request of the County. The most immediate need is approximately \$4 million, assuming the SA used current cash on hand reserved for other obligations, but that could increase based on cash flow circumstances.

Although the Agency is disputing the payment demand, the legislation allows for a payment plan request per H&S 34179.6(h)(3). The statute states at DOF's discretion, if DOF determines that payment of the full amount required under subdivision (d) is not currently feasible or would jeopardize the ability of the successor agency to pay enforceable obligations in a timely manner, it may agree to an installment plan.



**DEPARTMENT OF
FINANCE**

Attachment "1"

EDMUND G. BROWN JR. - GOVERNOR

915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

December 14, 2012

Mr. Brad Raulston, Executive Director
City of National City
1243 National City Blvd.
National City, CA 91950

Dear Mr. Raulston:

Subject: Low and Moderate Income Housing Fund Due Diligence Review

This letter supersedes Finance's original LMIHF DDR determination letter dated November 7, 2012. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of National City (Agency) submitted an oversight board approved Low and Moderate Income Housing Fund (LMIHF) Due Diligence Review (DDR) to the California Department of Finance (Finance) on October 18, 2012. Finance issued a LMIHF DDR determination letter on November 7, 2012. Subsequently, the Agency requested a Meet and Confer session on one or more items adjusted by Finance. The Meet and Confer Session was held on December 4, 2012.

Based on a review of additional or clarifying information provided to Finance during the Meet and Confer process, Finance continues to believe the adjustments made to the DDR's stated balance of LMIHF available for distribution to the taxing entities is appropriate. HSC section 34179.6 (d) authorizes Finance to make these adjustments. We maintain the adjustments continue to be necessary for the following reason:

The Agency contends the retention of current balances is necessary in order to meet obligations related to the WI-TOD project due in ROPS periods covering fiscal year 2012-13. Finance originally denied the Agency's request to retain \$15,873,200 due to a lack of evidence there would be insufficient property taxes to pay the specified obligations. During the Meet and Confer process, the Agency provided additional information including a projection of annual revenue and spending requirements. Upon review of the additional information, Finance has concluded that although the Agency contends they will experience a deficit in ROPS periods through December 2015, there should be sufficient funds to cover future obligations. This determination is further supported by the ROPS III Meet and Confer process where the WI-TOD project items were determined to be unenforceable.

Specifically, the Agency contends the WI-TOD items are in continuance of a Development and Disposition Agreement (DDA) between the former RDA and a third party dated June 21, 2011. Further review of the DDA shows the Agency is not required to perform these items; therefore, these are not enforceable obligations and not eligible for payment from the LMIHF.

HSC provides successor agencies with various methods to address short term cash flow issues, should they occur. These may include refinancing debt pursuant to HSC section 34177.5 (a), requesting a loan from the city pursuant to HSC section 34173 (h), or accumulating reserves for future obligations when a future balloon or uneven payment is expected. The Agency should seek counsel from their oversight board to determine the solution most appropriate for their situation.

Since the Agency has alternatives to address short term cash flow shortages, Finance deems it is not necessary for the Agency to retain the requested funds.

As such, the Agency's LMIHF balance available for distribution to the affected taxing entities continues to be \$6,155,638 (see table below).

LMIHF Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ (7,454,994)
Finance Adjustments	
Add:	
Requested retained balance not supported	15,873,200
Approved ROPS items	(2,262,568)
Total LMIHF available to be distributed:	\$ 6,155,638

This is Finance's final determination of the LMIHF balances available for distribution to the taxing entities. HSC section 34179.6 (f) requires successor agencies to transmit to the county auditor-controller the amount of funds identified in the above table within five working days, plus any interest those sums accumulated while in the possession of the recipient.

If funds identified for transmission are in the possession of the successor agency, and if the successor agency is operated by the city or county that created the former redevelopment agency, then failure to transmit the identified funds may result in offsets to the city's or the county's sales and use tax allocation, as well as its property tax allocation. If funds identified for transmission are in the possession of another taxing entity, the successor agency is required to take diligent efforts to recover such funds. A failure to recover and remit those funds may result in offsets to the other taxing entity's sales and use tax allocation or to its property tax allocation. If funds identified for transmission are in the possession of a private entity, HSC 34179.6 (h) (1) (B) states that any remittance related to unallowable transfers to a private party may also be subject to a 10 percent penalty if not remitted within 60 days.

Failure to transmit the identified funds will also prevent the Agency from being able to receive a finding of completion from Finance. Without a finding of completion, the Agency will be unable to take advantage of the provisions detailed in HSC section 34191.4. Specifically, these provisions allow certain loan agreements between the former redevelopment agency (RDA) and the city, county, or city and county that created the RDA to be considered enforceable obligations. These provisions also allow certain bond proceeds to be used for the purposes in which they were sold and allows for the transfer of real property and interests into the Community Redevelopment Property Trust Fund once Finance approves the Agency's long-range property management plan.

In addition to the consequences above, willful failure to return assets that were deemed an unallowable transfer or failure to remit the funds identified above could expose certain individuals to criminal penalties under existing law.

Mr. Raulston
December 14, 2012
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Pursuant to HSC section 34167.5 and 34178.8, the California State Controller's Office (Controller) has the authority to claw back assets that were inappropriately transferred to the city, county, or any other public agency. Determinations outlined in this letter and Finance's Housing Assets Transfer letter dated September 11, 2012 do not in any way eliminate the Controller's authority.

Please direct inquiries to Zachary Stacy, Manager or Derk Symons, Lead Analyst at (916) 445-1546.

Sincerely,



STEVE SZALAY
Local Government Consultant

cc: Ms. Denise Davis, Executive Secretary, City of National City
Mr. Juan Perez, Senior Auditor and Controller Manager, County of San Diego
California State Controller's Office



**DEPARTMENT OF
FINANCE**

EDMUND G. BROWN JR. - GOVERNOR

915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

December 18, 2012

Brad Raulston, Executive Director
National City
1243 National City Blvd.
National City, CA 91950

Dear Mr. Raulston:

Subject: Recognized Obligation Payment Schedule

This letter supersedes Finance's Recognized Obligation Payment Schedule (ROPS) letter dated October 7, 2012. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of National City Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS III) to the California Department of Finance (Finance) on August 16, 2012 for the period of January 1 through June 30, 2013. Finance issued its determination related to those enforceable obligations on October 7, 2012. Subsequently, the Agency requested a Meet and Confer session on one or more of the items denied by Finance. The Meet and Confer session was held on November 14, 2012.

Based on a review of additional information and documentation provided to Finance during the Meet and Confer process, Finance has completed its review of the specific items being disputed.

- **Item 86 – Loan from Sewer Fund in the amount of \$760,000.** Finance continues to deny this item. The item is a loan between the former redevelopment agency (RDA) and the City. According to HSC section 34171 (d)(2) loans between the city that created the RDA and the former RDA are not enforceable obligations unless the loan agreement was entered into within the first two years of the creation of the RDA. HSC section 34191.4 states that upon receiving a Finding of Completion, loan agreements between the city that created the RDA and the Agency may become enforceable obligations if the oversight board makes a finding that the loan was for legitimate redevelopment purposes.
- **Items 10 and 11 – WI-TOD totaling \$6 million in Low and Moderate Income Housing Funds.** Finance continues to deny these items. Finance denied because no contracts were in place by June 27, 2011. HSC section 34163(b) prohibits a redevelopment agency from entering into a contract with any entity after June 27, 2011. The Agency contends these items are in continuance of a Development and Disposition Agreement (DDA) between the former RDA and a third party dated June 21, 2011. Further review of the DDA shows the Agency is not required to perform these items; therefore, these are not enforceable obligations and not eligible for payment from the Low and Moderate Income Housing Fund.

- Items 43, 57, 94, and 95 in the amount of \$6,691,638. Finance continues to deny these items. Finance denied these items because HSC section 34163(b) prohibits a redevelopment agency from entering into a contract with any entity after June 27, 2011 and no contracts were provided to support these items. We note that pursuant to HSC section 34191.4 (c), successor agencies that have been issued a Finding of Completion by Finance will be allowed to use excess proceeds from bonds issued prior to December 31, 2010 for the purposes for which the bonds were issued. Successor Agencies are required to defease or repurchase on the open market for cancellation any bonds that cannot be used for the purpose they were issued or if they were issued after December 31, 2010. The bond proceeds requested for use were issued in 2011. Therefore, this item is not an enforceable obligation.
- Item No. 93 – Replenish Reserves in the amount of \$4.27 million. Finance continues to deny this item. Finance denied this item because requesting funds to reimburse unfunded obligations of the former RDA for a period that occurred prior to the dissolution of redevelopment is not an enforceable obligation. In the event the Agency does not receive sufficient Redevelopment Property Tax Trust Fund (RPTTF) funding in a given ROPS period the City is authorized to loan funds to the Agency to pay for approved enforceable obligations. However, this loan was made in order to pay for the July 2012 residual payment demand. As such, it is not an enforceable obligation and is not eligible for RPTTF funding on this ROPS.
- Item No. 99 in the amount of \$2 million for a pending legal settlement. Finance continues to deny this item. Finance previously denied this item because HSC 34171 (d) outlines characteristics of enforceable obligations and does not recognize reserves set aside as enforceable obligations other than for bond indebtedness. The Agency contends a ruling was handed down; however, the Agency appealed the decision and a final settlement agreement has not been entered by a competent court of law or binding arbitration decision as required by HSC section 34171 (d) (1) (D). Pending settlements do not meet the definition of an enforceable obligation. Therefore, the \$1 million reserve is not enforceable and not eligible for funding at this time. Once a final settlement agreement or binding arbitration decision has been entered by the court, the Agency may resubmit this item on a future ROPS for additional consideration.
- item 89 – Legal Services for Oversight Board in the amount of \$100,000. Finance reclassified this item. HSC section 34171 (b) allows litigation expenses related to assets or obligations to be funded with property tax outside the administrative cap. However, Item 89 relates to general legal representation and not specifically to bringing or contesting a legal action in court; therefore, it is considered an administrative cost and Finance continues to reclassify this item as administrative costs.
- Item 144 – Contract for Legal Services in the amount of \$50,000. Finance originally reclassified this item as administrative costs. Finance no longer reclassifies this item as administrative costs. This item falls into the category of litigation expenses specifically excluded from the administrative cap as defined by HSC 34171 (b). We do note, however, the contract limits costs to \$25,000 and not the \$50,000 the Agency listed as an outstanding obligation on the ROPS. Since the amount requested for the ROPS III period does not exceed \$25,000, Finance takes no action on this item at this time.
- Claimed administrative costs exceed the allowance by \$194,651. HSC section 34171 (b) limits fiscal year 2012-13 administrative expenses to three percent of property tax

allocated to the successor agency or \$250,000, whichever is greater. As a result, the Agency is eligible for \$266,889 in administrative expenses. The county auditor-controller did not distribute administrative costs for the July through December 2012 period, thus leaving a balance of \$266,889 available. Although \$249,000 is claimed for administrative cost, items 88, 89, 90, 101, 126, 127, 133, 134, 135, 136, 138, and 139 totaling \$212,540 are considered general administrative expenses and should be counted towards the cap. Therefore, \$194,651 of excess administrative cost claimed is not allowed.

For Items 90 and 101, the Agency contends the items are enforceable obligations per HSC section 34171 (b); Item 90 is related to the Due Diligence review required per HSC section 34197.5 and Item 101 is for property management costs of Agency assets prior to property disposition. Although Finance agrees that these items may be enforceable obligations outside of the administrative cost cap, the Agency did not provide documentation to demonstrate its position. Therefore, at this time, we continue to reclassify these items as administrative costs. If the Agency is able to provide sufficient documentation to support these items, it may claim these items as enforceable obligations on a future ROPS.

In addition, per Finance's ROPS letter dated October 7, 2012, the following items not disputed by the Agency continue to be denied:

- Item No. 91 – July through December 2012 funding shortfall in the amount of \$4 million does not meet the definition of an enforceable obligation. While Finance may have approved RPTTF funding that exceeded the amount available, the ability to fund items on the ROPS with property tax is limited to the amount of funding available to the successor agency in the RPTTF. HSC section 34173 (h) allows for a city to loan funds to a successor for administrative costs and enforceable obligations, and put the repayment of these loans on the subsequent ROPS. This does not appear to be the case for this item. Additionally, it is not evident that this item is tied to a specific enforceable obligation or obligations, but merely a plug to account for the difference between what was approved by Finance and what was actually received. Therefore, this item is not an enforceable obligation and not eligible for RPTTF funding.

The Agency's maximum approved Redevelopment Property Tax Trust Fund (RPTTF) distribution for the reporting period is: \$4,587,117 as summarized below:

Approved RPTTF Distribution Amount	
For the period of January through June 2013	
Total RPTTF funding requested for obligations	\$ 14,221,104
Less: Six-month total for item(s) denied or reclassified as administrative cost	
Item No. 86	420,000
Item No. 91	3,995,503
Item No. 93	4,272,833
Item No. 99	1,000,000
Item No. 88	30,000
Item No. 89	30,000
Item No. 90	18,000
Item No. 101	30,000
Item No. 126	20,000
Item No. 127	25,000
Item No. 133	414
Item No. 134	3,600
Item No. 135	1,200
Item No. 136	126
Item No. 138	51,000
Item No. 139	3,200
Total approved RPTTF for enforceable obligations	\$ 4,320,228
Plus: Allowable RPTTF distribution for administrative cost for ROPS III	266,889
Total RPTTF approved:	\$ 4,587,117
Administrative Cost Calculation	
Total RPTTF for the period July through December 2012	\$ 4,576,072
Total RPTTF for the period January through June 2013	4,320,228
Total RPTTF for fiscal year 2012-13:	\$ 8,896,300
Allowable administrative cost for fiscal year 2012-13 (Greater of 3% or \$250,000)	266,889
Administrative allowance for the period of July through December 2012	-
Allowable RPTTF distribution for administrative cost for ROPS III:	\$ 266,889

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS III form the estimated obligations and actual payments associated with the January through June 2012 period. The amount of RPTTF approved in the above table will be adjusted by the county auditor-controller to account for differences between actual payments and past estimated obligations. Additionally, these estimates and accounts are subject to audit by the county auditor-controller and the State Controller.

The amount available from the RPTTF is the same as the property tax increment that was available prior to enactment of ABx1 26 and AB 1484. This amount is not and never was an unlimited funding source. Therefore, as a practical matter, the ability to fund the items on the ROPS with property tax is limited to the amount of funding available to the successor agency in the RPTTF.

Except for items disallowed as noted above, Finance is not objecting to the remaining items listed in your ROPS III. Obligations deemed not to be enforceable shall be removed from your ROPS. This is Finance's final determination related to the enforceable obligations reported on your ROPS for January 1 through June 30, 2013. Finance's determination is effective for this time period only and should not be conclusively relied upon for future periods. All items listed

Mr. Raulston
December 18, 2012
Page 5

on a future ROPS are subject to a subsequent review and may be denied even if it was or was not questioned on this ROPS or a preceding ROPS.

Please direct inquiries to Evelyn Suess, Dispute Resolution Supervisor, or Danielle Brandon, Analyst, at (916) 445-1546.

Sincerely,

A handwritten signature in black ink, appearing to read 'Steve Szalay', with a stylized flourish at the end.

STEVE SZALAY
Local Government Consultant

cc: Juan Perez, Senior Auditor and Controller Manager, San Diego County
California State Controller's Office

**SUCCESSOR AGENCY TO
THE COMMUNITY DEVELOPMENT COMMISSION
AS THE NATIONAL CITY REDEVELOPMENT AGENCY
AGENDA STATEMENT**

ADDED ITEM

MEETING DATE: 12/18/12

AGENDA ITEM NO.

ITEM TITLE:

Request from the Successor Agency to borrow funds from the City of National City that are needed to meet obligations of the Successor Agency and payment demands of the State of California's Department of Finance (DOF).

PREPARED BY: Brad Raulston
PHONE: (619) 336-4256

DEPARTMENT: Successor Agency

APPROVED BY: 

EXPLANATION:

See attached

FINANCIAL STATEMENT:

ACCOUNT NO.

APPROVED: _____ **Finance**

APPROVED: _____ **MIS**

ENVIRONMENTAL REVIEW:

ORDINANCE: INTRODUCTION: ☐ **FINAL ADOPTION:** ☐

STAFF RECOMMENDATION:

BOARD / COMMISSION RECOMMENDATION:

ATTACHMENTS:

1. Letter from Steve Szalay of the DOF dated December 14, 2012
2. Meet and Confer request regarding LMIHF DDR including cash flow projections
3. Letter from Steve Szalay of the DOF dated November 7, 2012

Explanation of Successor Agency add-on item:

The DOF is demanding the Successor Agency pay \$6,155,638 from the Low and Moderate Income Housing Fund (LMIHF) balance. The Successor Agency cannot meet this demand set forth in the final determination of the State DOF detailed in the letter from Steve Szalay of the DOF dated December 14, 2012. The DOF contends there is a \$6.1 million residual fund balance in LMIHF and is demanding payment within five working days. Excluding bond proceeds, the estimated total cash on hand in all combined funds of the Successor Agency is \$2.5 million. Those funds are needed to meet future obligations of the Successor Agency. Additionally, the legally executed WI-TOD DDA requires the Successor Agency to provide \$21 million for the 1st phase and \$15 million for the 2nd phase of the affordable housing project.

The demand payment of \$6.1 million is due by this Friday, December 21st. If the payment is not made the DOF letter threatens severe consequences. The letter states: "a failure to recover and remit those funds may result in offsets to the other taxing entity's sales and use tax allocation or to its property tax allocation." In addition, a failure to transmit the payment will prevent the Successor Agency from receiving a "finding of completion" from DOF. Without a finding of completion, the Successor Agency will be unable to take advantage of the provisions detailed in HSC section 34191.4.

The Successor Agency is requesting to borrow funds from the City of National City to pay this demand. The SA has already requested a loan from the County on a prior occasion which was denied. The most immediate need is approximately \$4 million but that could increase based on many circumstances.

CITY OF NATIONAL CITY, CALIFORNIA
COUNCIL AGENDA STATEMENT

ADDED ITEM

MEETING DATE: 12/18/12

AGENDA ITEM NO.

ITEM TITLE:

Consideration of the request from the Successor Agency to obtain a loan from the City of National City to meet obligations of the Successor Agency and payment demands of the State of California's Department of Finance (DOF).

PREPARED BY: Leslie Deese

DEPARTMENT: CMO

PHONE: (619) 336-4244

APPROVED BY: 

EXPLANATION:

See attached

FINANCIAL STATEMENT:

ACCOUNT NO.

APPROVED: _____ Finance

APPROVED: _____ MIS

ENVIRONMENTAL REVIEW:

ORDINANCE: INTRODUCTION: ☐ FINAL ADOPTION: ☐

STAFF RECOMMENDATION:

Deny the request due to inability to maintain General Fund contingency reserves if the loan is approved.

BOARD / COMMISSION RECOMMENDATION:

ATTACHMENTS:

1. Letter from Steve Szalay of the DOF dated December 14, 2012
2. Council Policy 201

Explanation for City of National City add-on item:

The Successor Agency (SA) is requesting to borrow funds from the City of National City to pay the demand detailed in the letter from Steve Szalay of the DOF dated December 14, 2012. The DOF contends there is a \$6.1 million residual fund balance in LMIHF and is demanding payment within five working days. Excluding bond proceeds, the estimated total cash on hand in all combined funds of the Successor Agency is \$2.5 million. Those funds are needed to meet future obligations of the Successor Agency. The SA has already requested a loan from the County on a prior occasion which was denied. The SA intends to make another request of the County. The most immediate need is approximately \$4 million, assuming the SA used current cash on hand reserved for other obligations, but that could increase based on cash flow circumstances. The only eligible fund from the City to make the requested loan is General Fund contingency reserves. |

As established by City Council Policy 201, Maintenance of Reserve Funds, the City of National City is required to maintain reserve levels for certain funds. The General Fund contingency reserve policy strengthens the City's ability to withstand unexpected financial emergencies that may result from local/national disasters, revenue shortfalls, or other problems directly affecting the City of National City. The minimum target for the General Fund contingency reserve is a range equal to between 25% and 50% of a single year's General Fund operating expenditures. Using the most recently published Comprehensive Annual Financial Statements (CAFR), the City's unassigned General Fund reserve is \$7,059,792. With budgeted General Fund operating expenses of \$37,478,125, the current reserve level is 18.8%, 6.2% short on the low end of the City Council's targeted range.

With an unassigned reserve level of 18%, the City has limited ability, in the case of a local/national disaster, to meet its financial obligations (pay general fund expenditures) for a period of 2.3 months. Given the current fiscal uncertainty with Federal and State funding, it is imperative that the City maintain adequate reserves to provide core services, including emergency response, health & safety programs, and infrastructure operations.

The loan requested from the SA of approximately \$4 million would take more than half existing reserves and would bring the City's reserve level down to approximately 10%, or one month, of operating expenses. This would make the City financially vulnerable to major economic shift and a significant decrease in its credit rating.

Staff does not recommend loaning funds to the Successor Agency due to these concerns and the insecurity of the future property tax funds designated to repay the requested loan.